



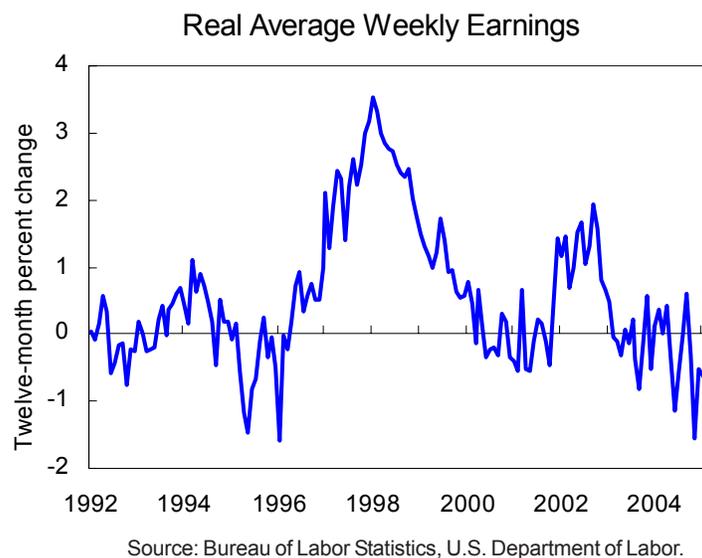
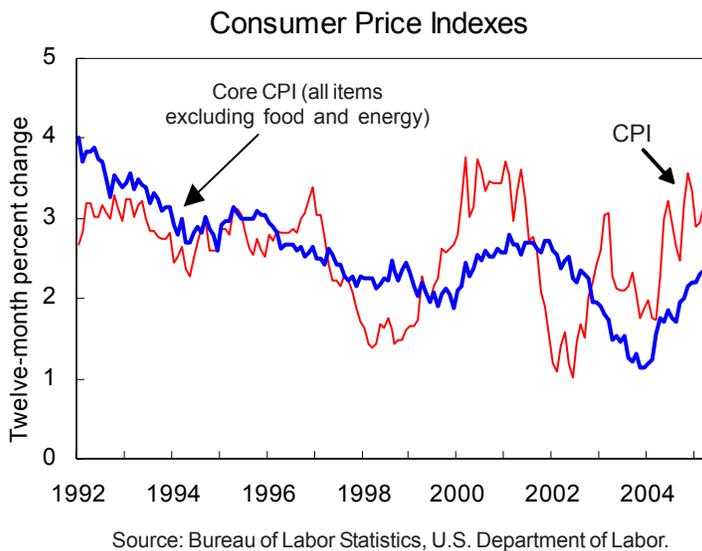
WEEKLY ECONOMIC DIGEST



JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

April 26, 2005

Rising Inflation Squeezes Workers' Earnings



- **Consumer price inflation rose in March.** The consumer price index (CPI) rose by 0.6 percent last month to 3.1 percent above its level a year earlier (see top chart). Nearly half of that rise, which was the largest since last October, stemmed from a 4.0 percent spike in energy prices. However, even the core CPI (which excludes the effects of food and energy prices) rose 0.4 percent to 2.3 percent above its level a year earlier. The acceleration in the core CPI largely reflected higher rates of inflation for shelter, medical care, and apparel.
- **Workers' earnings are not keeping up with inflation.** The real (inflation-adjusted) average weekly earnings of production or nonsupervisory workers fell by 0.3 percent for the second consecutive month in March, to 0.5 percent below its level a year earlier (see bottom chart). Data from a different survey show that the median level of usual weekly earnings of full-time workers for the first quarter of 2005 was unchanged from its level a year earlier, after adjustment for inflation. Earnings at the top of the distribution (the 90th percentile) increased in real terms over that period, but earnings at the bottom (the 10th percentile) were 1.4 percent lower than they were a year earlier.
- **Housing starts stumbled last month.** The number of privately owned housing units started in March was more than 390,000 (annual rate) fewer than were started in February. That 17.6 percent decline was larger than financial market analysts had anticipated, and was the largest monthly decline since January 1991. Analysts have been expecting rising mortgage rates to temper housing activity from its torrid pace of recent years, but the March decline in housing starts probably also reflects temporary factors such as unusually wet weather conditions through much of the country and the early Easter holiday.

The Economy at a Glance	Mar	Feb	Jan	Dec	2005 Qtr 1	2004 Qtr 4	2004 Qtr 3	2004 Qtr 2	2004	2003
Economic Activity										
Real GDP (% growth)*	—	—	—	—	n.a.	3.8	4.0	3.3	4.4	3.0
Industrial Production (% growth)	3.7	2.4	0	10.0	3.6	4.5	2.7	4.3	4.2	0
Capacity Utilization (level, %)	79.4	79.3	79.2	79.2	79.3	78.8	78.2	77.9	78.1	75.5
Civilian Unemployment Rate (level, %)	5.2	5.4	5.2	5.4	5.3	5.4	5.5	5.6	5.5	6.0
Housing Starts (thousands)	1837	2229	2189	2056	2085	1975	1969	1920	1952	1853
Real Disposable Personal Income (% growth)*	n.a.	0.8	3.9 [#]	9.7 [#]	n.a.	3.5 [#]	2.9	2.8	3.2 [#]	2.3
Retail Sales (% growth)	3.2	6.0	0.7	16.2	5.4	10.2	6.2	7.0	7.3	4.3
Personal Saving Rate (level, %)*	n.a.	0.6	0.8	0.4 [#]	n.a.	0.5 [#]	0.7	1.3	0.9 [#]	1.4
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	7.4	4.9	1.2	0	2.4	3.6	1.6	4.4	2.7	2.3
Core CPI-U Inflation (% growth)	4.9	3.7	2.4	2.4	2.6	2.3	1.7	2.6	1.8	1.5
Employment Cost Index (% growth)*	—	—	—	—	n.a.	2.8	3.6	4.1	3.8	4.0
Output per Hour (% growth)	—	—	—	—	n.a.	2.1	1.3	3.9	4.0	4.4
Financial Markets										
T-bill Rate, 3-month (level, %)	2.74	2.54	2.33	2.19	2.54	2.01	1.49	1.08	1.37	1.01
T-note Rate, 10-years (level, %)	4.50	4.17	4.22	4.23	4.30	4.17	4.30	4.60	4.27	4.01
Federal Funds Rate (level, %)	2.63	2.50	2.28	2.16	2.47	1.95	1.43	1.01	1.35	1.13
Dow Jones Industrial Avg (index level)	10682	10724	10540	10673	10648	10362	10130	10289	10317	8994

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

* Subject to revision over the next week.

Adjusted by the JEC staff to exclude the temporary effects of Microsoft's special dividend payment in December 2004.

Upcoming Economic Releases:

- **Advance Report on Durable Goods Manufacturers' Shipments, Inventories and Orders: March 2005** [Release: Wednesday, April 27]
- **Gross Domestic Product: First Quarter 2005 (Advance)** [Release: Thursday, April 28]
- **Employment Cost Index: March 2005** [Release: Friday, April 29]
- **Construction Spending: March 2005** [Release: Monday, May 2]